

THE OFFICE OF REGULATORY STAFF

REMAND TESTIMONY & EXHIBITS

OF

DAWN M. HIPP

DECEMBER 19, 2014



DOCKET NO. 2013-42-S

**Application of Palmetto Utilities, Incorporated for
Adjustment of Rates and Charges for Sewer Service**

REMAND TESTIMONY OF
DAWN M. HIPPI
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2013-42-S
IN RE: APPLICATION OF PALMETTO UTILITIES, INC. FOR
ADJUSTMENT OF RATES AND CHARGES FOR SEWER SERVICE

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn Hipp. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Director for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I am a 1992 graduate of Minnesota State University - Moorhead where I earned a B.A. in Political Science. Prior to my employment with ORS, I worked for Laidlaw Environmental Services, Inc. as an accounts receivable supervisor and a facility accounting supervisor. From 1999 to 2003, I worked for Safety-Kleen Corporation and Clean Harbors Environmental Services, Inc. as an operations manager in the Government Services Division.

In September 2004, I joined ORS as a Program Specialist for the Water and Wastewater Department. In November 2007, I became the Director of the Consumer Services, Transportation, Water and Wastewater Department and currently supervise

1 ORS activities related to utility compliance with the rules and regulations of the Public
2 Service Commission of South Carolina ("Commission" or "PSC"). In addition, I am
3 responsible for the records of customer complaints and inquiries received, recorded, and
4 investigated by ORS during the regular course of business.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

6 **A.** The purpose of my remand testimony is to support the proposed settlement
7 reached between Palmetto Utilities, Inc. ("PUI"), Sensor Enterprises, Inc. ("Sensor"), J-
8 Ray, Inc. ("J-Ray") and ORS (collectively known as the "Parties"). Approval of this
9 settlement agreement by the Commission will resolve all matters on appeal in Appellate
10 Case 2013-002492.

11 **Q. WHAT ARE THE TERMS OF THE SETTLEMENT BETWEEN THE PARTIES?**

12 **A.** In summary, the Parties have agreed to and propose that PUI be allowed an
13 opportunity to earn an annual revenue requirement of \$7,639,810 and an operating
14 margin of 17.98%. This would result in a monthly sewer service charge of \$36.50 per
15 residential customer and \$36.50 per commercial customer Single Family Equivalent
16 ("SFE"). See Remand Exhibit DMH-1. The change in the revenue requirement is
17 attributed to the following settlement components:

- 18 1) A rate for Sensor based on 11.3 SFEs retroactive to September 17, 2013 and a refund
19 of \$13,608.06;
- 20 2) A rate for J-Ray based on 7.9 SFEs retroactive to September 17, 2013 and a refund of
21 \$5,141.68;
- 22 3) A recovery by PUI of the refunds for Sensor and J-Ray which total \$18,749.74;

1 4) A redistribution of \$60,846.66 in commercial customer revenue resulting from
2 modifying the calculation for the SFE rating for fast-food restaurants with drive-thru
3 facilities where the car count served by drive-thru facilities is eliminated for all
4 commercial customers similarly situated to Sensor and J-Ray; and

5 5) A recovery by PUI of additional rate case expenses of \$37,779.95 incurred in the
6 appeal by Sensor and J-Ray with the additional rate case expenses being amortized
7 over three years.

8 **Q. DO THE TERMS OF THE PROPOSED SETTLEMENT AGREEMENT CHANGE**
9 **THE OPERATING MARGIN APPROVED BY THE COMMISSION IN ORDER**
10 **NO. 2013-660?**

11 **A.** No. The Commission allowed PUI the opportunity to earn an operating margin of
12 17.98%. See Remand Exhibit DMH-2. The proposed settlement agreement does not
13 change the approved operating margin. The proposed rate schedule is attached as
14 Remand Exhibit DMH-3.

15 **Q. ARE THE TERMS OF THE SETTLEMENT AGREEMENT IN THE PUBLIC**
16 **INTEREST?**

17 **A.** Yes. It is ORS's position that the terms outlined in the proposed settlement
18 agreement balance the interests of the consuming public, economic development and job
19 creation and the financial integrity of PUI. The proposed settlement agreement avoids
20 on-going litigation costs and allows for comparable treatment of similarly situated
21 commercial customers of PUI and its sister company, Palmetto Wastewater Reclamation,
22 Inc. ORS recommends the Commission approve the settlement agreement.

1 **Q. DOES THIS CONCLUDE YOUR REMAND TESTIMONY?**

2 **A.** Yes, it does.

Palmetto Utilities, Inc. Test Year Revenues at Rates Approved in Commission Order No. 2011-617

Service Type	Classification	Service Units	Fee per Unit	Test Year Calculated Revenues
SEWER	Residential (including multiple family dwellings)	11,828	\$33.00	\$4,683,888
	TOTAL RESIDENTIAL SEWER SERVICE	11,828		\$4,683,888
	Commercial and Industrial	4,974	\$33.00	\$1,969,704
	TOTAL COMMERCIAL SEWER SERVICE	4,974		\$1,969,704
TOTAL SEWER SERVICE REVENUE		16,802		\$6,653,592
Late Fees				\$55,280
Notification Fees				\$125,200
Customer Account Charge				\$15,700
Reconnect Fees				\$17,210
Returned Check Fees				\$3,375
Tap Fees (non-CIAC portion)				\$115,058
TOTAL OTHER REVENUE				\$331,823
TOTAL OPERATING REVENUE				\$6,985,415

Palmetto Utilities, Inc. Revenues Approved in Commission Order No. 2013-660

Service Type	Classification	Service Units	Fee per Unit	Rates Approved in Order No. 2013-660 Revenues	Increase from Test Year Calculated Revenues	% Increase
SEWER	Residential (including multiple family dwellings)	11,828	\$36.00	\$5,109,696	\$425,808	9.1%
	TOTAL RESIDENTIAL SEWER SERVICE	11,828		\$5,109,696	\$425,808	9.1%
	Commercial and Industrial	4,974	\$36.00	\$2,148,768	\$179,064	9.1%
	TOTAL COMMERCIAL SEWER SERVICE	4,974		\$2,148,768	\$179,064	9.1%
TOTAL SEWER SERVICE REVENUE		16,802		\$7,258,464	\$604,872	9.1%
Late Fees				\$60,305	\$5,025	9.1%
Notification Fees				\$125,200	\$0	0.0%
Customer Account Charge				\$15,700	\$0	0.0%
Reconnect Fees				\$17,210	\$0	0.0%
Returned Check Fees				\$3,375	\$0	0.0%
Tap Fees (non-CIAC portion)				\$115,058	\$0	0.0%
TOTAL OTHER REVENUE				\$336,848	\$5,025	
TOTAL OPERATING REVENUE				\$7,595,312	\$609,897	8.7%

Palmetto Utilities, Inc. Revenues at Proposed Settlement Rates (Remand)

Service Type	Classification	Service Units	Fee per Unit	Proposed Settlement Revenues	Increase from Commission Order No. 2013-660 Revenues	% from Commission Order No. 2013-660 Increase
SEWER	Residential (including multiple family dwellings)	11,828	\$36.50	\$5,180,664	\$70,968	1.4%
	TOTAL RESIDENTIAL SEWER SERVICE	11,828		\$5,180,664	\$70,968	1.4%
	Commercial and Industrial	4,833	\$36.50	\$2,116,920	(\$31,848)	-1.5%
	TOTAL COMMERCIAL SEWER SERVICE	4,833		\$2,116,920	(\$31,848)	-1.5%
TOTAL SEWER SERVICE REVENUE		16,661		\$7,297,584	\$39,120	0.5%
Late Fees				\$65,683	\$5,378	8.9%
Notification Fees				\$125,200	\$0	0.0%
Customer Account Charge				\$15,700	\$0	0.0%
Reconnect Fees				\$17,210	\$0	0.0%
Returned Check Fees				\$3,375	\$0	0.0%
Tap Fees (non-CIAC portion)				\$115,058	\$0	0.0%
TOTAL OTHER REVENUE				\$342,226	\$5,378	
TOTAL OPERATING REVENUE				\$7,639,810	\$44,498	0.6%

Palmetto Utilities, Inc.
Docket No. 2013-42-S

Remand Exhibit DMH-2

Operating Experience & Operating Margin
For the Test Year Ended September 30, 2012

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>UTILITY OPERATING INCOME:</u>					
<u>Wastewater Sales Revenue</u>					
Total Service Revenues	6,470,284	183,308 (1)	6,653,592	643,992 (12)	7,297,584
Total Other Wastewater Revenues	331,823	0	331,823	10,403 (13)	342,226
<u>TOTAL UTILITY OPERATING INCOME</u>	<u>6,802,107</u>	<u>183,308</u>	<u>6,985,415</u>	<u>654,395</u>	<u>7,639,810</u>
<u>UTILITY OPERATING EXPENSES:</u>					
Total Pumping Expenses	1,011,986	(51,432) (2)	960,554	0	960,554
Total Treatment and Disposal Expenses	885,238	47,427 (3)	932,665	0	932,665
Total Customer Accounts Expenses	436,806	(24,949) (4)	411,857	4,640 (14)	416,497
Total Administrative and General Exp.	1,270,421	538,666 (5)	1,809,087	0	1,809,087
<u>TOTAL OPERATING EXPENSES</u>	<u>3,604,451</u>	<u>509,712</u>	<u>4,114,163</u>	<u>4,640</u>	<u>4,118,803</u>
Total Depreciation and Amortization	608,032	70,903 (6)	678,935	0	678,935
Total Taxes Other Than Income Taxes	379,036	31,790 (7)	410,826	6,122 (15)	416,948
Total Income Taxes	(509,376)	1,120,553 (8)	611,177	240,075 (16)	851,252
<u>TOTAL UTILITY OPERATING EXPENSES</u>	<u>4,082,143</u>	<u>1,732,958</u>	<u>5,815,101</u>	<u>250,837</u>	<u>6,065,938</u>
<u>TOTAL NET UTILITY OPERATING INCOME (LOSS)</u>	<u>2,719,964</u>	<u>(1,549,650)</u>	<u>1,170,314</u>	<u>403,558</u>	<u>1,573,872</u>
Total Other Income and Deductions	138,389	(138,389) (9)	0	0	0
Less: Total Interest Expense	585,172	(382,384) (10)	202,788	0	202,788
Add: Customer Growth	0	2,123 (11)	2,123	732 (17)	2,855
<u>NET INCOME (LOSS) FOR MARGIN</u>	<u>2,273,181</u>	<u>(1,303,532)</u>	<u>969,649</u>	<u>404,290</u>	<u>1,373,939</u>
Operating Margin	31.38%		13.88%		17.98%

SEWER RATE SCHEDULE

1. MONTHLY CHARGE

- a. Residential – Monthly charger per
single family house, condominium,
villa or apartment unit \$36.50
- b. Commercial – Monthly charge per
single family equivalent \$36.50
- c. The monthly charges listed above are minimum charges and shall apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the monthly charges may be calculated by multiplying the equivalency rating by the monthly charge.

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

The Utility may, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2. NONRECURRING CHARGES

- a. Sewer service connection charge per
single-family equivalent \$250.00
- b. Plant Impact fee per single-family
equivalent \$800.00
- c. The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating is less than one (1). If the equivalency rating is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. BULK TREATMENT SERVICES

The utility will provide bulk treatment services to Richland County ("County") upon request by the county. The rates for such bulk treatment services shall be as set forth above for both monthly charges and nonrecurring charges per single-family equivalent. The County shall certify to the Utility the number of units or taps (residential and commercial) which discharge wastewater into the County's collection system and shall provide all other information required by the Utility in order that the Utility may accurately determine the proper charges to be made to the County. The County shall insure that all commercial customers comply with the Utility's toxic and pretreatment effluent guidelines and refrain from discharging any toxic or hazardous materials or substances into the collection system. The County will maintain the authority to interrupt service immediately where customers violate the Utility's toxic or pretreatment effluent standards of discharge prohibited wastes into the sewer system. The Utility shall have the unfettered right to interrupt bulk service to the County if it determines that forbidden wastes are being or are about to be discharged into the Utility's sewer system.

The County shall pay for all costs of connecting its collection lines into the Utility's mains, installing a meter of quality acceptable to the Utility to measure flows, and constructing a sampling station according to the Utility's construction requirements.

4. NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES

- a. Notification Fee: A fee of \$25.00 shall be charged each customer to whom the Utility mails the notice as required by Commission Rule R.103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
- b. Customer Account Charge: A fee of \$20.00 shall be charged as a one-time fee to defray the costs of initiating service.
- c. Reconnection charges: In addition to any other charges that may be due, a reconnection fee of \$250.00 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. Where an elder valve has been previously installed, a reconnection charge of thirty-five dollars (\$35.00) shall be due. The amount of the reconnection fee shall be in accordance with R. 103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time.

5. BILLING CYCLE

Recurring charges will be billed monthly. Nonrecurring charges will be billed and collected in advance of service being provided.

6. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half (1½%) percent.

7. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The Utility will not accept or treat any substance or material that has been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Health and Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §§ 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §§ 403.5 and 403.6 are to be processed according to the pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

8. REQUIREMENTS AND CHARGES PERTAINING TO SATELLITE SYSTEMS

- a. Where there is connected to the Utility's system a satellite system, as defined in DHEC Regulation 61-9.505.8 or other pertinent law rule or regulation, the owner or operator of such satellite system shall operate and maintain same in accordance with all applicable laws, rules, or regulations.
- b. The owner or operator of a satellite system shall construct, maintain, and operate such satellite system in a manner that the prohibited or untreated materials referred to in Section 6 of this rate schedule (including but not limited to Fats, Oils, Sand or Grease), storm water, and groundwater are not introduced into the Utility's system.
- c. The owner or operator of a satellite system shall provide Utility with access to such satellite system and the property upon which it is situated in accordance with the requirements of Commission Regulation 103-537.
- d. The owner or operator of a satellite system shall not less than annually inspect such satellite system and make such repairs, replacements, modifications, cleanings, or other undertakings necessary to meet the requirements of this Section 7 of the rate schedule. Such inspection shall be documented by written reports and video recordings of television inspections of lines and a copy of the inspection report received by the owner or operator of a satellite system, including

video of the inspection, shall be provided to the Utility. Should the owner or operator fail to undertake such inspection, Utility shall have the right to have service interrupted without notice until such inspection is conducted, and shall be liable to the Utility for all damages and costs, including reasonable attorney's fees, incurred by the Utility as a result thereof.

- e. Should Utility determine that the owner or operator of a satellite system has failed to comply with the requirements of this Section 7 of the rate schedule, with the exception of the requirement that a satellite system be cleaned, the Utility may initiate disconnection of the satellite system in accordance with the Commission's regulations, and disconnection to endure until such time as said requirements are met and all charges, costs and expenses to which Utility is entitled are repaid. With respect to the cleaning of a satellite system, the owner or operator of a satellite system shall have the option of cleaning same within five (5) business days after receiving written notice from Utility that an inspection reveals that a cleaning is required. Should the owner or operator of such a satellite system fail to have the necessary cleaning performed within that time frame, the Utility may initiate disconnection of the satellite system in accordance with the Commission's regulations, and disconnection to endure until such time as said requirements are met and all charges, costs and expenses to which Utility is entitled are repaid

9. CONSTRUCTION STANDARDS

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed in constructing parts of the system.

10. EXTENSION OF UTILITY SERVICE LINES AND MAINS

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into its sewer system. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point on the Utility's sewer system may receive service, subject to paying the appropriate fees and charges set forth in this rate schedule, complying with the guidelines and standards hereof, and, where appropriate, agreeing to pay an acceptable amount for multi-tap capacity.

11. CONTRACTS FOR MULTI-TAP CAPACITY

The Utility shall have no obligation to modify or expand its plant, other facilities or mains to treat the sewerage of any person or entity requesting multi-taps (a commitment for five or more taps) unless such person or entity first agrees to pay an acceptable amount to the Utility to defray all or a portion of the Utility's costs to make modifications or expansions thereto.

12. SINGLE FAMILY EQUIVALENT

A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2011), as may be amended from time to time. Where the Utility has reason to suspect that a person or entity is exceeding the design loadings established by the Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities, the Utility shall have the right to request and receive water usage records from that person or entity and/or the provider of water to such person or entity. Also, the Utility shall have the right to conduct an "on premises" inspection of the customer's premises. If it is determined that actual flows or loadings are greater than the design flows or loadings, then the Utility shall recalculate the customer's equivalency rating based on actual flows or loadings and thereafter bill for its services in accordance with such recalculated loadings.